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SUBJECT: SERBIA: FROM FURNITURE TO FILMS, GOVERNMENT FUMBLES FOREIGN
INVESTMENT OPPORTUNITIES

REF: BELGRADE 519

Summary

1. (SBU) Serbia is missing out on potential investment opportunities from interested foreign investors. Despite the obvious need for new foreign investment in this difficult economic environment, the government's investment strategy is mishandled, haphazard and lacks central coordination, resulting in conflicting messages to potential investors. This fumbling recently became public in the case of Swedish furniture maker/retailer IKEA's inconclusive two year saga of trying to obtain GoS support to build shopping centers in Serbia. Potential U.S. investors and U.S agencies, notably the Overseas Private Investment Corporation, have also complained of incoherent messages and foot dragging from government officials. The Serbian government needs to better coordinate investment efforts or potential investors will stop knocking on Serbia's door. End Summary.

IKEA in Serbia: Lots of Assembly Still Required

2. (U) IKEA's plans to open shopping centers in Serbia, which would bring one thousand new jobs, ground to a halt as a result of minimal government support and little effort to reduce the bureaucratic hurdles to investment. A front-page "Politika" article on August 27 asked the question, "Will Serbia chase IKEA away?" IKEA's regional manager for Serbia, Croatia, and Slovenia Dragan Skalusevic, told Politika that the Serbian government had done little to attract the Swedish furniture giant, despite a possible 1 billion Euro (\$1.4 billion) investment in the region. According to Skalusavic, IKEA presented an investment plan to the Serbian government in the autumn of 2007, which included opening of IKEA stores, shopping malls, increasing production through subcontracts with Serbian furniture manufacturers and opening an IKEA factory. To date, IKEA has been unable to purchase land in Serbia due to significant investment challenges: the unregulated land and property registry, undeveloped infrastructure, unapproved city development plans, and the excessive price of land. Skalusavic refuted claims that IKEA was looking for free land or extraordinary incentives; on the contrary, he stated that because IKEA maintained high international standards for transparency, IKEA had not yet been successful in taking even the first step to purchase land. Skalusavic confirmed that negotiations between IKEA and the Serbian government had been suspended.

IKEA Deal Not Dead Yet

3. (SBU) While the IKEA deal in Serbia is "not dead yet" there is little progress, Sweden's Ambassador to Serbia, Krister Bringeus, told the Charge on September 14. Sources at IKEA told us that the government had not resumed negotiations, and the future investment of

the company in Serbia would depend on the time it takes the government to clear obstructions to investment. If an agreement was not reached, Bringeus said IKEA would look elsewhere for investment opportunities, mentioning Ukraine and Morocco as potential markets.

14. (SBU) The Prime Minister's Economic Advisor, Tatjana Isakovic, told us on August 27 that despite the press reports to the contrary, the government had worked hard to accommodate IKEA, but to no avail. She was unwilling to elaborate on the specifics of the talks with IKEA, but said it was not as the media and IKEA depicted it. Isakovic said she still hoped that an agreement could be reached.

American Investors Frustrated

15. (SBU) In addition to IKEA, the GoS has also failed to close a deal with Sallyport, an interested American investor in the film industry. When it was part of Yugoslavia, Serbia had a robust film industry, turning out scores of movies a year, but since then production has greatly diminished, although significant technical talent and facilities remain. As part of its competitiveness project, USAID is actively touting Serbia as a potential film production location. In 2007, Sallyport, in partnership with American-based film studio Road Town, gave the GoS a proposal to buy a stake in the government's bankrupt Avala Film Studios, located in Belgrade. Nearly a year later, Sallyport confirms that despite repeated attempts to negotiate various formulations of a sale, it has not been able to reach a deal. In spite of significant outreach by the Embassy to various ministries, we have not been able to prompt a significant government response to date. One potential American

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investor described dealing with the Serbian government as "banging your head against a wall."

OPIC Financing Greatly Limited

16. (SBU) Further complicating the investment picture in Serbia, in July 2009, the U.S. Overseas Private Investment Corporation (OPIC) severely restricted its operations in Serbia and announced it would no longer partake in financing that involves the GoS. This decision was a result of more than two years of inaction by the GoS to resolve an outstanding investment dispute involving an American investor (reftel). OPIC's decision, while attracting media attention, has received no response from the GoS. We continue to encourage the GoS to respond to the OPIC issue. Isakovic informed us on September 16 that Prime Minister Cvetkovic has asked Deputy Prime Minister and Economics Minister Mladjen Dinkic (G17) to handle both the Sallyport and OPIC issues. Isakovic said Cvetkovic had no solution to either investment dispute and that she "hoped" that the appropriate ministries would address the issues.

Comment

17. (SBU) Serbia is facing an uphill battle in fighting a growing perception that it is doing little to attract foreign direct investment. A disjointed government coalition with individual ministers pursuing their own interests has led to an incoherent investment strategy. The GoS needs to streamline the process and address these outstanding investment claims, or Serbia risks further tarnishing its international reputation. End Comment.
PEDERSON